



GOVERNOR'S OFFICE OF
BUDGET AND PROGRAM PLANNING

Fiscal Note 2011 Biennium

Bill #	HB0202	Title:	Income tax credit for long-term care insurance
Primary Sponsor:	Miller, Mike	Status:	As Introduced

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| <input type="checkbox"/> Significant Local Gov Impact | <input type="checkbox"/> Needs to be included in HB 2 | <input checked="" type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts | <input type="checkbox"/> Dedicated Revenue Form Attached |

FISCAL SUMMARY

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
Expenditures:				
General Fund	\$0	\$0	\$0	\$0
Revenue:				
General Fund	(\$666,415)	(\$680,481)	(\$700,386)	(\$720,874)
Net Impact-General Fund Balance	<u>(\$666,415)</u>	<u>(\$680,481)</u>	<u>(\$700,386)</u>	<u>(\$720,874)</u>

Description of fiscal impact:

This bill proposes a tax credit for long-term care insurance premiums. The proposed credit is limited to \$150 per taxpayer and is subject to other limitations. The estimated cost, based upon tax year 2007 returns, is about is nearly \$0.7 million in FY 2010, increasing each year thereafter.

FISCAL ANALYSIS

Assumptions:

1. This bill proposes a tax credit for long term care insurance premiums. The proposed tax credit can be claimed for one-half of the long-term care insurance premiums paid by the taxpayer. The credit is limited to \$150 per taxpayer. The credit cannot exceed the taxpayer's liability, and cannot be carried forward or backward. The credit may not be claimed by a taxpayer if the taxpayer has claimed another credit or deduction for those expenses. The credit may not be claimed for premiums paid from a health or medical savings account.
2. The bill states that the credit will not be allowed for part-year residents or non-residents of the state.
3. Under current law, premium payments for long-term care insurance are deductible from income as an itemized deduction.
4. In the most recent year for which data is available, tax year (TY) 2007, 13,172 full year resident taxpayers claimed \$24,551,454 in long-term care insurance deductions on their tax returns.
5. The average marginal rate for all resident taxpayers based on TY 2007 returns is 5.525%. Therefore, for

each extra dollar of taxable income, a taxpayer pays \$0.05525 in state income tax.

6. The tax returns in which taxpayers claimed long-term care insurance premiums as a deduction were used to calculate the trade-off between the proposed credit and the existing deduction in order to estimate the reduction in tax due to the credit.
7. Subject to the limitation that the credit cannot exceed tax liability, taxpayers who deduct long-term premium insurance will be better off using the proposed credit if their premiums are less than \$2,715 per year. If their premiums total more than \$2,715 in the tax year, the value of their deductions, are likely to be more than the value of the credit ($\$150 / 5.525\% = \$2,715$).
8. For the purposes of this fiscal note, it is assumed that on returns where the taxpayers have a filing status of married filing jointly, these taxpayers count as two taxpayers.
9. Based on 2007 tax returns where taxpayers claimed deductions and had the average marginal tax rate, taxpayers would have lowered their tax liability in 2007 by \$617,750 if the new credit had been in effect.
10. This estimate is based upon data from the 2007 tax returns for those taxpayers who used itemized deductions. Some taxpayers who took the standard deduction may have long-term care premium expenses and would be able to claim a credit; this would increase the cost of the credit.
11. The table below shows the official and projected growth rates for all other credits, and the corresponding cost of the this credit, assuming it grows at the same rate:

Time Period	Growth Rate	Cost of Credit
Tax Year 2007	-	\$617,750
Tax Year 2008	6.6484%	\$658,821
Tax Year 2009	1.1527%	\$666,415
Tax Year 2010	2.1107%	\$680,481
Tax Year 2011	2.9252%	\$700,386
Tax Year 2012	2.9252%	\$720,874

12. Credits will be claimed on tax returns filed in the following fiscal year.

13. The Department of Revenue is assuming no significant additional cost due to this bill.

	<u>FY 2010 Difference</u>	<u>FY 2011 Difference</u>	<u>FY 2012 Difference</u>	<u>FY 2013 Difference</u>
<u>Fiscal Impact:</u>				
<u>Revenues:</u>				
General Fund (01)	(\$666,415)	(\$680,481)	(\$700,386)	(\$720,874)
<u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u>				
General Fund (01)	(\$666,415)	(\$680,481)	(\$700,386)	(\$720,874)

Technical Notes:

1. New section 1, (6) of the bill state that the credit is not allowed for part-year residents or non-residents of the state. Part-year residents are not defined. Also there may be legal or constitutional questions raised by restricting the credit to full-year residents.

Sponsor's Initials

Date

Budget Director's Initials

Date